PAPER B

Purpose: For Decision

Committee report

Committee	**CABINET**
Date	**TUESDAY, 11 SEPTEMBER 2012**
Title	**BUDGET REVIEW**
Report of	**LEADER AND CABINET MEMBER FOR RESOURCES**

PURPOSE

1. As part of the Medium-Term Budget Strategy process, a mid-year budget review report is made to Council each September to provide an update on the local authority's financial position. This takes into account the previous financial year's outturn, the current year's delivery of savings and budget monitoring position, along with the projected budget position for the next financial year.

2. In the context of the updated and latest financial position this report sets out proposals for the updated Medium-Term Financial Strategy and Budget Strategy for 2013/14 and future years. Included with this paper is a progress report on those economic initiatives agreed at Council in February, along with recommendations as to which further one-off initiatives should be agreed at this stage, taking into account the outcomes of the budget consultation process.

OUTCOMES

3. To confirm the overall financial position facing the Council and to agree the initial budget strategy for 2013/14 and medium–term approach for 2014/15 and beyond.

4. To note the progress which has been secured with regard to various economic initiatives and to decide which further one-off initiatives should be agreed for implementation at this stage.

BACKGROUND

5. The Council set the 2012/13 Budget and Capital Programme at its meeting on 29 February 2012. This was against a background of the 2010 Comprehensive Spending Review and the final Financial Settlements for Local Government for 2011/12 and 2012/13 which significantly reduced the level of government funding which the Council receives, on an on-going basis.

6. In overall terms it was estimated that over the four financial years 2011/12 – 2014/15 the loss of grant would be £20.8m. Due to frontloading of the reductions, nearly 80% of this reduction would be faced in the first two years. After allowing for projected increased costs, assumed council tax rises and the transfer of health funding, the net budget gap (the difference between the projected level of expenditure and the projected level of income) over the four year period totalled some £33.134m, of which £25.034m was budgeted to be met in 2011/12 and 2012/13, leaving £8.1m still to be found in 2013/14 and 2014/15.

7. Since then the Government has announced further spending limits as part of the Budget announced in March 2012, which will mean further reductions in resources. The Government continues to indicate that the deficit reduction strategy will continue for several years to come.

STRATEGIC CONTEXT

8. The Council's Corporate Plan – along with the Medium-Term Financial Strategy to deliver it – was agreed by Council at its meeting on 15 June 2011.

9. The key priorities in the Corporate Plan provide a framework for the setting of the Council's budget and where resources should be prioritised: i.e. to deliver the outcomes required that will make a difference to the way services are delivered and improved for residents and visitors. The activities set out within individual service plans aim to deliver the required outcomes and are supported by service budgets.

10. The Medium-Term Budget Strategy adopted at Full Council on 29 February 2012 directed resources to the eight key priorities:

    i. Raising educational standards.
    ii. Highways PFI.
    iii. Keeping children safe.
    iv. Supporting older and vulnerable residents.
    v. Housing and homelessness.
    vi. Regeneration and the economy.
    vii. Waste strategy.
    viii. Delivery of budget savings through changed service provision.

    A particular emphasis was placed on "regeneration and the economy" with a series of additional measures to support the intended outcomes in relation to this corporate priority. As requested by Council on 20 June 2012, a progress report on economic initiatives agreed on 29 February 2012 is included with this paper, in Appendix 2 to this report.

11. The Medium-Term Financial Strategy and Budget Strategy direct resources to these priorities and reflect the change to the shape and direction of service delivery as set out in the Corporate Plan which encompassed the principles in the report agreed by Cabinet on 7 December 2010 on the Council Organisation: Future Shape and Direction. These principles remain fully relevant in dealing with the future financial challenges.

12. The Council has been successful in delivering real change that has sought to minimise the impact on direct services yet still delivered significant reduction in on-going spend.

13. This has resulted in some 76% of the savings in the 2011/12 budget being back office, efficiencies or additional income and over 90% of the savings in the 2012/13 budget being from these areas. This has included significant restructuring within the Council and reduction in senior and middle management posts. Since January 2011 the chief officer and senior management posts have reduced by over a third (38 posts - an on-going saving of over £2.3m)

14. This is on top of a significant number of posts having their grades reduced and / or assuming additional responsibilities at the same grade. In total, excluding schools, the workforce has

been reduced over the same period by 530 employments (390 Full–Time Equivalents) including 230 compulsory redundancies and 108 voluntary redundancies.

15. Significant savings have also been made in “back-office costs” by enabling services to be delivered differently, often leading to an enhanced or more flexible level of service provision. This has been complemented by the Council taking an enabling approach to the provision of services by the local community. Examples of different delivery include community bus services, Ventnor Botanic Gardens, Waterside Pool, Shanklin Theatre, fire control, public toilets, community libraries and joint working with other organisations. The use of agency and temporary staff has also been reduced by a half over the last two financial years.

16. Work is continuing on a number of partnerships and potentially wider ranging joint activity which has the potential to bring both a higher level of efficiency and reduced costs.

17. It is important to recognise that undertaking these initiatives and delivering change is an essential and unavoidable element in reducing the Council’s on-going revenue spend and that without them the Council would face substantial unplanned service cuts which could lead to the cessation of many services altogether. This is particularly so in the context of projected large scale reductions in resources in 2014/15 and future years still to come.

BUDGET REVIEW

18. This Budget Review takes into account a number of considerations that come together to inform the Council’s overall financial position and how the Council can deal with it. These are:

- The outturn position for 2011/12.
- The delivery of the 2012/13 Budget.
- The projected resources and need to spend position for 2013/14.
- The longer term impact of Government’s proposals on Local Government funding for 2014/15 and beyond.

2011/12 Outturn

19. The Outturn position for 2011/12 was reported to Cabinet on 21 August 2012. This indicated that in overall terms there had been a net saving of £2.290m. This compares to the projected budget monitoring position reported during the course of 2011/12 of a net saving of at least £1.8m.

20. As part of the Council’s agreed strategy in dealing with the significant budget pressures it faces (from reduction in Government grants, increased costs and increased service need) strict financial and budgetary control is exercised. Despite having approved budget levels management action is taken to ensure that where savings can be made they are made. This has been underpinned by an approach which requires budget allocations for services and activities to be treated as the maximum permission to spend but with a continued emphasis on the need to make savings. This continues to be the approach, to ensure that budget allocations are only spent to a level required in order to deliver the service to the appropriate standard, thereby releasing net savings to contribute to future savings requirements and also to invest, wherever possible, in one-off initiatives that support the economic growth of the Island and prosperity for its residents and businesses.

21. Action was therefore successfully taken through spending controls, management controls on staffing and efficiency and contract savings made throughout all Directorates. Overall monitoring and control is exercised through the member-chaired Budget Review Board and

has resulted in a very positive result and reflects successful financial and budget management right across the Council.

22. Although there were a number of one-off savings in delivering the net saving there were also a number of savings that will be on-going including:

- External Audit fee and bank charges – £130K;
- Concessionary fares – £300k;
- Capital financing costs through debt repayment – £650k;
- Other minor budget heads – £170k.

23. This is on top of managing a number of budget pressures arising from increased costs; increased service need as well as income shortfalls e.g. care budget, Cowes Ferry income and savings relating to budgets which are already included in 2012/13 budget savings.

24. In overall terms it is therefore projected that some £1.250m of the additional net savings achieved in 2011/12 will reoccur in 2012/13.

Delivery of the 2012/13 Budget

25. Within the 2012/13 budget gross savings of £5.635m were agreed with a part year effect of £3.835m in 2012/13. The additional £1.8m full year impact in 2013/14 was to offset the loss of Council Tax freeze grant for 2012/13 which was only paid for one year.

26. The first quarter's monitor for 2012/13 is showing that the overall savings targets will be met and that despite some minor budget pressures it is projected that in overall terms there will once again be a net saving.

27. It should be appreciated that it is still very early in the financial year and there are a range of issues and pressures that could arise and adversely impact on individual budget areas such as the cost of care packages in Adult Social Care, pay awards, potential fall in income, home to school transport. The pattern of spend and the savings plans that have been implemented, as well as the continued tight budget and financial control being exercised, does give rise to a high level of confidence that budget pressures that arise will be offset by savings elsewhere.

28. The total re-profiled capital budget (including slippage from 2011/12) is £63.560m. Although some areas of spend are behind profile, others are progressing well and the overall programme is only 2.25 % behind profile at the end of quarter 1. This follows the overall delivery of the capital programme in 2011/12 which was the best level of achievement in recent years.

29. The management of capital debt and treasury management arrangements are still focussed on avoiding taking long-term external loans, repaying capital debt where it leads to on-going revenue savings and managing the Council's cash balances at any time to reduce interest costs.

2013/14 Budget

30. The Local Government Finance Settlements that followed the Comprehensive Spending Review set out the grants that the Council will receive in 2011/12 and 2012/13. For 2013/14 and 2014/15 announcements have still to be made and will reflect the new way that Local Authorities will be funded from 1 April 2013 under the retention of business rates proposals.

31. In overall terms the Comprehensive Spending Review did set out the national spending limits that would apply to the latter two years, and therefore it has been possible to project the likely proportionate impact of these spending limits on our local funding base. We will not however know until early December 2012 what the actual grant figures for the Council will be for 2013/14 and 2014/15.

32. Based on the national spending limits however the further reduction in grant in 2013/14 is fully expected to be minimal but likely to be of the order of £4.3m in 2014/15.

33. The savings target could increase if pay awards, inflationary impacts and statutory need increases above the levels projected and/or the actual settlement for 2013/14 reduces grants further or we suffer greater than projected on the distribution of resources to individual authorities.

34. The Government is also looking to reduce overall Departmental Spending Limits by 5% to provide funding for new initiatives which could mean further grant reductions.

35. The Medium-Term Financial Strategy assumes Council Tax increases of 2.5% each year. For 2011/12 and 2012/13 an assumed increase of 2.5% was met by a council tax freeze grant and therefore no increases were actually applied. There is no proposal, currently, that the Government will fund a further council tax freeze in 2013/14, and such an approach is not expected. There is likely to be an expectation, however, that any increases are kept as low as reasonably practical – which aligns with the Council's commitment.

36. In previous years the Government has set a capping level for council tax increases. Under the powers of the Localism Act, the Secretary of State for Communities and Local Government is empowered to set principles for the calculation of Council Tax increases in any year. If a local authority wants to increase its level above the level deemed excessive by these principles then a referendum would have to be undertaken.

37. It is likely that due to the cost of any referendum (£100k+) and the practicalities of budget setting effectively that the Secretary of State's principles will be the capping level. For 2013/14 this may be below the 2.5% level. It is not anticipated that the Council would be seeking to set a level that would invoke the requirement for a referendum.

38. Taking into account these factors and the projected additional costs and budget changes the overall projected budget position leads to a remaining revenue budget gap of £2.5m in 2013/14 and £7.0m in 2014/15.

<u>Government funding and future years</u>

39. The 2010 Comprehensive Spending Review set out the proposals for public finances for the four financial years 2011/12 – 2014/15. It also highlighted a number of changes that would be introduced that would impact on local government responsibilities and resourcing.

40. As set out earlier in this report, this review projected that over the four year period a loss of grant would amount to £20.8m for the Isle of Wight. Since then as part of the National Budget announced in March 2012 spending limits have been set for 2015/16 and 2016/17 which again would lead to a reduction in grant funding for local authorities.

41. In addition to this there are four key areas that will impact directly on the Council's resources from 1 April 2013 namely: Local Government Resource Review, Localisation of Council Tax Support, changes to education funding and transfer of Public Health responsibilities.

Local Government Resource Review

42. A report on the Local Government Resource Review was made to Council on 19 October 2011 .This set out the Government's intention to introduce from 1 April 2013 a new system of funding local authorities based on a retention of business rates model.

43. Following consultation the Government issued further technical documents and statements of intent in relation to the business rates retention scheme on 17th May 2012 and subsequently in July 2012 further clarification on how the system will work was published.

44. In overall terms the key elements are:

- From 1 April 2013, to provide an incentive for growing their local economies, local authorities will be able to retain a share of their business rates and benefit from future growth.

- The Government will centrally retain 50% of the business rates received.

- The Government will ensure a stable starting point so that no local authority is worse off as a result of the new system at the outset of the scheme.

- Under the new system there will be no assessment of future need to spend, thereby not taking into account demographic pressures.

- The Government will continue to set the business rate itself and the reliefs.

- Baseline funding level will be based on 2012/13 formulae grant methodology with updated datasets + or - limited technical adjustments e.g. rural services / concessionary fares after damping.

- There will be a levy placed on local authorities with a large growth in business rates income to stop any disproportionate gain, with such funding being made available as a safety net as protection for those local authorities facing a significant drop in business rates income. Baselines will be uprated each year by RPI .The levy will only apply to tariff authorities (see explanation below) and a safety net is proposed to be set at 7.5% - 10% of a local authority's business rate baseline.

- The Government has indicated its preference for the reset of system to take place every 10 years but initially it is likely to be within seven years, with 2020 at earliest.

- Total council funding will be set at the overall national spending control limit set by the Government. Of this only some 45% will actually be funded through the Business Rates Retention Scheme with the rest being funded through Revenue Support Grant.

- A top-up and tariff arrangement will be applied whereby a spending baseline will be set for each local authority. A proportion of this will be funded through the 50% local share of business rates. Those authorities whose 50 % local share is more than its business rates retention scheme spending baseline will pay back the excess over their grant entitlement as a tariff and those authorities (such as the Isle of Wight) with less

business rates income than their business rates retention scheme spending baseline would receive a top-up for the difference.

- It is also proposed to transfer certain grants, currently received separately, into the Business Rates Retention scheme such as Early Years Grant, Council Tax Support Grant and the 2011/12 Council Tax Freeze Grant.

- The Government also proposes to reduce the overall national spending limits thus reducing the allocation to local authorities. This relates to a reduction for the 1% pay restraint, funding for the New Homes Bonus and funding of academies. For New Homes Bonus and academies it is proposed to top slice resources that are required for several years ahead and then hand back by way of grant (as any surplus) each year until it is fully required.

45. It is extremely difficult to forecast the impact of all these changes but on the basis of the latest consultation documents the broad funding position for the Isle of Wight is set out below:

	2013/14 £m	2014/15 £m
Local share of business rates	17.6	18.0
Top-up Grant	11.8	12.0
Business rates spending Baseline	29.4	30.0
Revenue Support Grant	40.0	34.0
Hand back of surplus Monies for New Homes Bonus, academies	6.2	5.3
	75.6	**69.3**

46. The assumptions used in arriving at the actual Council funding for 2013/14 are subject to significant variation. The final scheme implemented by the Government may still vary. The above figures would include the loss of grant under the localisation of Council Tax Support proposals and new funding arrangements for free education for 2 year olds.

47. It is unlikely that the overall grant position will improve on that assumed within the budget projections particularly for 2013/14 when a standstill position was assumed. There is, however, a risk that when the Settlement for 2013/14 is announced in early December 2012 that the overall grant loss could be as much as a further £5m.

Localisation of Council Tax Support

48. The Department of Communities and Local Government published a consultation document on localising support for council tax in England on 2 August 2011. A further statement of intent and funding arrangements was published on 17 May 2012.

49. Currently council tax benefit is determined and set nationally, but administered locally. The proposals are to replace Council Tax Benefit with Council Tax Support and transfer control and delivery to local authorities through local schemes with effect from 1 April 2013.

50. Prior to transfer the overall level of Government funding will be reduced by some 10% and local schemes will be developed and consulted upon. There will be no change in the entitlements for claimants of pensionable age, which are protected. Instead the thrust is to provide initiatives to incentivise people to get back to work and thus reduce the support given.

51. A separate report on the agenda for the Cabinet and Full Council meetings in September 2012 deals with the overall position on developing a local scheme and the financial risks involved.

Education Funding

52. The Government has consulted upon a revised mechanism for funding schools, with some local flexibility. Essentially the current arrangements will be divided into two grants: one for schools and the other for upper tier authorities. The Education Grant (authority) will provide funds for local authorities to provide their statutory services (e.g. admissions, home to school transport, and some aspects of school improvement). At this stage local authorities have no knowledge of the size of this grant or how it will compare to current funding levels and is therefore a high area of financial risk.

53. The Dedicated Schools Grant will provide a mechanism to transfer to schools funding which is currently held by local authorities (e.g. behaviour support, aspects of special needs provision and commissioning budgets for schools experiencing difficulty). Work is currently being undertaken with Isle of Wight schools to agree the formula of the new grant (within the areas of local flexibility) and a separate report will be brought to Cabinet in October 2012 seeking adoption of the local scheme prior to submission to Government for approval.

54. The remaining deficit on the Dedicated Schools Grant at the end of 2011/12 arising from schools' deficits and redundancy costs following School Reorganisation was £5,334,957.87. This amount was, therefore, held against general fund balances on the basis that it would be repaid over the period 2012/13 to 2014/15. In 2012-13 the Dedicated Schools Grant was top-sliced by 1/3 of the outstanding deficit before school budget shares were calculated. In April 2013, new funding arrangements will come into operation which will mean that the local authority will not be permitted to top-slice the Dedicated Schools Grant. Discussions have taken place with the Education Funding Agency to determine the method which should be used to recover the deficit in 2013-14 and 2014-15. In order to comply with the 2013 funding regulations, the authority will be required to delegate this sum to schools and then seek agreement from the Schools Forum to "de-delegate" it i.e. hand it back to the authority. Initial discussions took place with the Schools Forum in July and the group indicated that this would be agreed. The forum membership includes academies so while "de-delegation" does not strictly apply to them it is assumed they will comply with the wishes of the other schools.

Public Health

55. A number of public health responsibilities will formally transfer to upper tier local authorities, including the Isle of Wight, in April 2013. Overall public health duties will be shared with a new body called Public Health England. The final distribution of responsibilities between local authorities and Public Health England has yet to be determined. A transition plan has been developed for the current financial year and this is on track. The funding mechanism is yet to be finalised but initial indications would suggest that the Council will receive a similar level of funding to that currently received so at this stage no significant financial risk is forecast.

OVERALL FINANCIAL POSITION

56. The adoption and delivery of the current Medium-Term Financial Strategy has put the Council in a very strong and healthy financial position. With very effective budget and financial management right across the Council significant savings have been achieved and the 2011/12 outturn resulted in a net overall improvement on budget of £2.290m. This ensures that the Council is well prepared to deal with future budgetary challenges. At the same time it is also appropriate to consider whether some further one-off initiatives in support of the Council’s priorities, particularly investment that responds to the economic challenges the Island faces at this time. However, the scale of such investment for such initiatives at this stage should be carefully balanced against the continuing uncertainties over various funding levels, including the Local Government Finance Settlement, as set out below.

57. The 2012/13 budget strategy is well on the way to being delivered. Reserves and general fund balances remain at a healthy and sustainable level.

58. However the Council, like all local authorities, is facing still further significant reductions in its resources in the foreseeable future, along with additional budget pressures that it will need to meet. In particular:

- The current projections for 2013/14 assume no overall reduction in grant. This may well be optimistic. The Government is looking to reduce overall departmental spending limits by 5% to provide funding for new initiatives. This could mean further grant reductions for local authorities.

- Whatever happens the spending limits set by Government for 2014/15 and beyond will mean significant reductions in grant funding. The local impact of this is currently projected to be a reduction of £4.3m in 2014/15 and a further reduction of £6.5m by 2016/17. These are by no means maximum reductions and may well be higher, depending on a number of formulaic factors.

- The localisation of council tax support will inevitably lead to increased costs and financial risk, unless we see a step change of residents securing permanent employment.

- There will be on-going additional costs of social care each and every year.

- The level of new education grant may create a financial risk.

- The spending limits set by Government include inflation therefore the Council will need to meet additional costs above the Government’s assumptions.

- Currently interest rates are low and no new long-term external borrowing has taken place since January 2005. This has led to significant one-off savings on capital financing costs. The Council’s reserves and surplus cash flow is used instead of long-term borrowing. If this was invested short term the interest earned would be very low – some 0.5% – whereas the long-term rates would be in excess of 4%. Ultimately when longer-term borrowing and/or interest rates rise then additional revenue costs of £2m+ per annum may need to be met.

- The Council’s resource base will fall due to reductions in Government funding but its ability to raise other sources of income is extremely limited. Council Tax increases will be effectively capped (by the referendum check), the new top up grant will be fixed

and only uprated by RPI inflation, the business rates retained locally will be a very low proportion of the budget and local fees and charges will be affected by economic conditions and may well reduce.

- The proportion of the Council's budget that remains wholly committed is increasing, the savings base is reducing and the proportion invested in social care is increasing by a significant amount year on year.

59. This means that, despite the significant achievements of the Council in delivering savings and putting the local authority in a currently healthy financial position, it is the case that even with all of that the current structure, activity and services commissioned and provided are not affordable, in revenue terms, on an on-going basis. It is in this context that the Council once again has to review how it goes about its business.

Revenue Expenditure and Income

60. Revenue expenditure relates to day to day spend such as staff salaries, supplies & services, energy costs, minor repairs, equipment and capital financing costs – all of which are paying for things that are used up during the course of each financial year. e.g. electricity is consumed and the payment is made for that consumption and the revenue expenditure is incurred when the electricity is used. Revenue income relates to income from fees and charges, council tax payments, grants etc. that are used to fund revenue expenditure in the year.

61. In accounting for revenue the Council needs to ensure it has sufficient resources to meet its commitments in each and every year. It is this requirement which underpins the need to set a lawful, balanced and deliverable budget on an annual basis, and ensure that the Council does not commit to a projected level of revenue expenditure that is greater than its projected level of revenue income. If it does wish for the former to exceed the latter, it will need to draw on balances. The Council has consistently taken an approach over recent years that does not use balances to support on-going revenue expenditure, given that such an approach would not allow the Council to live within its means on an on-going basis. Balances could, however, be used more appropriately for expenditure which does not have an on-going requirement, or on a transitional basis should the future funding position be unclear.

Capital Expenditure and Capital Receipts

62. Capital expenditure relates to spend on assets that have a lasting life such as land, buildings, major equipment, vehicles, major repairs and maintenance. For this expenditure it is normal to spread the cost over much of the life of the asset by borrowing like a mortgage. For example the expenditure of £500k on major building improvements with a life of ten years would be funded by loan and the cost of the repayment of the £500k plus interest incurred would be charged to revenue each year for ten years which would be some £60k per annum.

63. Capital receipts arise when capital assets like land, buildings etc. are sold. These receipts cannot be directly used to fund revenue expenditure, but can be used to pay for capital expenditure. This avoids or minimises the need to take out a loan, thus saving the revenue capital financing costs or repaying capital debt early (thus reducing revenue capital financing costs that way).

64. In considering any capital expenditure the important consideration is its affordability in revenue terms.

One-off v On-going

65. In developing a medium-term approach the Medium-Term Financial Strategy and budget strategies both estimate future resources and expenditure to give an overall budget position. In doing this it is important to distinguish between revenue that is one-off or will change in the short-term and revenue that is on-going, for the reasons set out further above.

66. If a new permanent post is created it will have an on-going revenue budget implication which will need to be funded by an on-going source of revenue. If for example, because of capacity issues, a short-term appointment is needed then the one-off cost could be funded by a reserve or one-off source of funding without affecting the budgets of future years.

67. Although the Council is in a strong financial position currently this needs to be viewed in two ways. Firstly healthy reserves and general fund balances are one-off and once spent they are no longer available. The outturn positions, whilst very positive, are as a result of both one-off and on-going savings.

68. Secondly it is absolutely clear that the Council's revenue expenditure on current activities and services will significantly exceed the resources that it will have to pay for them in the future. On current projections the cumulative projected revenue budget gap for 2013/14-2016/17 will be at least £22m which is a very significant proportion of what the Council spends on discretionary services (which is the area where savings are likely to have to be made, unless some areas of statutory services are subject to legislative changes or there is some flexibility to deliver further efficiencies in these areas).

69. Because of the strength of the current financial position there is a limited ability to fund priority initiatives with one-off cost implications. To commit to on-going spend will make the very challenging financial position from 2014/15 in particular even more difficult, and at Council on 20 June 2012 members rejected proposals that would have led to additional on-going revenue expenditure implications at Council.

70. In this context, it is therefore proposed that the Council takes an approach that requires that where any growth with on-going revenue costs is agreed that this is funded by reducing on-going revenue spend on other activities or services.

PROPOSED WAY FORWARD

71. Building on the principles that were agreed by Cabinet on 7 December 2010 and taking into account what has already been implemented as part of the 2012/13 budget process, consideration needs to be given to the areas where savings proposals should be worked up for 2013/14 and beyond.

72. It would be wrong to consider 2013/14 in isolation from 2014/15 and beyond, given the impending changes to the way local authorities are funded and the significant grant reductions that will be faced.

73. The Government's grant funding position for 2013/14 is particularly uncertain and the Council is due to know its actual grant funding figures until December 2012. The 2014/15 position and beyond is known to an extent in that there will be significant reductions in grants, although the scale of these is still uncertain.

74. The on-going revenue savings from 2011/12 into 2012/13 are also expected to continue into 2013/14, given that these were built into the base budget as recurring savings. In addition the

Highways PFI Contract has been agreed and will come into operation from 1 April 2013. The Council's current budgeted revenue spend for the services that will be included within the contract will be reduced and a revenue saving for 2013/14 will be secured.

75. The overall projected revenue position can be summarised as set out below:

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Projected loss of grant funding	0	4,300	4,200	2,300
Projected additional costs for Adult Social Care	3,600	2,800	2,800	3,000
Projected additional costs for inflation contingency contracts, landfill tax, capital financing etc.	1,600	2,900	3,000	3,200
	5,200	10,000	10,000	8,500
Assumed Council Tax increase of 2.5%	(100) *	(2,100)	(2,000)	(2,000)
New Homes Bonus increase	(800)	(900)	(1,000)	(1,000)
Full year effect of 12/13 savings being implemented	(1,800)	0	0	0
Budget Gap before savings	2,500	7,000	7,000	5,500
On-going recurring additional savings from 11/12 and 12/13	(1,250)			
Highways PFI revenue savings / capital financing costs / back office efficiencies	(1,250)			
	(2,500)			
Risks				
Further grant losses for 2013/14	?			
Potential costs of Localisation of Council Tax Support	?			
*Net of loss of Council Tax Freeze Grant				

76. In overall terms, assuming a nil reduction in grant in 2013/14, then the projected budget gap should be able to be bridged without specific further savings proposals being implemented. As set out above, the projected Budget Gap (£2.5m) is anticipated to be bridged by:

- The recurring additional savings that were secured in 2011/12 financial year (as part of the £2.290m overall net saving) and further recurring additional savings that are due to be secured in the current financial year (2012/13).
- The on-going revenue savings secured by entering into the Highways PFI Contract, along with further savings in capital financing costs and back office efficiencies. It is anticipated that these can be achieved by continuing to implement strict recruitment and spending controls through the authorisation panel.

77. Further consideration as to whether the projected Budget Gap for 2013/14 is able to be met by these elements will be undertaken in December once the Local Government Finance Settlement has been received.

78. This also assumes that in line with the principle set out in paragraph 69 above, no avoidable growth with on-going budget implications will be agreed unless it can be funded by reducing on-going revenue expenditure elsewhere within the budget.

79. For 2014/15 and beyond there is a need to develop options for implementation to deliver required savings from 1 April 2014 onwards.

80. The Medium-Term Budget Strategy for 2013/14 and 2014/15 and future years is proposed as follows:

For 2013/14

- Review savings/underspends achieved in 2011/12 and 2012/13 to confirm which elements can be secured as additional ongoing revenue savings into 2013/14.
- Continue with the authorisation panel implementing strict recruitment and spending controls.
- Robustly look for efficiencies and savings in contract, supplies and services.
- Defer taking long-term external debt for as long as possible.
- Restrict any capital and revenue spend growth with ongoing revenue costs
- Commence detailed service review on all support costs – both corporate and by directorate – staffing, contracts, supplies and services.
- Service areas to review measures that could deliver short-term gains.

For 2014/15

- Develop strategy during 2012/13 for phased implementation during 2013/14 with full year impact in 2014/15.
- Undertake mapping of specified services re. future need, delivery options and priorities.
- Develop hierarchy of priorities re. choices and options.
- Continue detailed service review on all support costs – both corporate and by directorate – staffing, contracts, supplies and services.
- Develop sustainable structure for 2014/15 and beyond.

81. In considering any priority spend with one-off budget implications then the position on reserves and balances needs to be considered. Reserves generally are at a healthy level and should provide for any financial risks such as write-off of bad debts, uninsured risks, and contractual liability disputes. These will be reviewed as part of the budget process.

82. General fund balances are not linked to any specific liability or risk but are held as a contingency against overall overspends and unforeseen budget pressures. It is felt prudent to maintain at least £5m in general fund balances at the very minimum, however some of the considerable budget uncertainties of the coming years may lead members to consider maintaining them at a higher level until likely levels of future funding arrangements (along with the implications of the Council Tax Benefit reforms) are known.

83. After allowing for the 2011/12 outturn and the allocation of £1.8m of the net saving as agreed by Council on 29 February 2012 general fund balances stood at £8.550m. This sets the local authority in a healthy and strong financial position, well placed to continue support a limited number of one-off initiatives in support of the corporate priorities whilst striking a balance with recognising the uncertainties of future budget considerations.

84. In light of some of the uncertainty at this stage about the detail of the future funding arrangements, it is proposed that only a limited amount of balances is made available at this time to support one-off initiatives. Furthermore, it is proposed that these should once again focus on the corporate priority of *Regeneration and the Economy*, with a particular focus on

jobs and tourism, as was agreed by Council on 20 June 2012. It is proposed that £400k should be made available for such initiatives.

85. On 20 June 2012, it was agreed that officers would develop a series of further one-off initiatives in line with a number of proposals considered at the time. It was further agreed that these proposals will be considered by this Council meeting on 19 September 2012, alongside the outcomes of the budget consultation process. Appendix 2 to this report sets out the progress which has been made in developing these initiatives – along with other suggestions that have been made – and offers recommendations as to how this £400k should be allocated, along with recommendations as to other next steps to be taken. As Appendix 2 sets out, a number of the proposals are not considered to require any budget allocation at this stage, but such an allocation could be made in the future depending on the budget position (and future budgetary pressures) as known at the time.

CONSULTATION

86. For the 2012/13 Budget the Council undertook a number of service specific consultation exercises and equality impact assessments as well as a general budget stakeholder workshop and online simulator. The results of these exercises were analysed and fed into the budget process to influence decisions on resource allocation.

87. The Overview and Scrutiny Committee also played a key role in considering and scrutinising the budget and relevant meetings were held with recommendations feeding into the Cabinet consideration.

88. The overall approach to Budget Consultation was reviewed and the Overview and Scrutiny Committee at its meeting on 17 May 2012 considered the overall proposals and resolved that the proposal to bring forward the timing of the public consultation to June / July 2012 to enable public comments and views, on a wider basis, to be fed into the initial round of budget discussion be supported and:

a. the existing method of consultation for qualitative feedback, with the same consultative groups, the separate group for the business community be continued and with a separate session for council staff but in addition a consultation group of ward councillors, chaired by members of the Overview and Scrutiny Committee, be held to ensure that the feedback gathered from their local communities is fed back.

b. the budget simulator is utilised earlier in the year and promoted widely with the content at a broader level to enable maximum input and that this mirrors the content explored with focus groups.

c. the feedback gathered from the qualitative and quantitative exercises be fed into the budget review report to Cabinet and Full Council in September 2012 and is also published in the September 2012 issue of One Island so that final feedback from the public can be sought by October to feed into the final budget decisions.

d. the focus of the budget consultation be on the community's spending priorities and that this involve a possible rise in council tax against a possible reduction in investment together with the option for maintaining or increasing other charges should more income be required to invest in priority areas.

e. officers discuss with the Isle of Wight Association of Local Councils possible arrangements for cluster meetings of town and parish councils to discuss the 2013/14 budget.

89. Workshops were undertaken in July 2012 and the budget simulator ran from 6 July to 6 August.

90. A summary of the results of the consultations is provided in Appendix 1 to this report.

91. It is considered that the consultation process has demonstrated support for the overall approach to Budget Strategy and the continued focus on the agreed corporate priorities. The consultation process also helpfully offered views on how funding for one-off initiatives should be invested, and this has informed the recommendations included in Appendix 2 to this report.

<u>FINANCIAL / BUDGET IMPLICATIONS</u>

92. This report is entirely about the overall financial and budgetary position of the Council and updates the financial and budget issues that the Council is now facing following the outturn position for 2011/12, the first quarter's performance in 2012/13 and the projected budget position over the next four financial years.

93. The Government has published a number of consultation documents that will affect funding of local authorities from 2013/14 and the Local Government Finance Act is expected to be passed later this year.

94. For the 2013/14 Budget and Council Tax Setting the report to Cabinet will be published on Friday 1 February 2013.

95. The overall reserves and General Fund Balances position is healthy and the budget monitoring position in 2012/13 indicates that by 31 March 2013 a further net saving is likely to be made. The future funding position from 2014/15 is likely to be extremely challenging with a need to restrict any additional initiatives or growth with on-going revenue costs.

96. There is potential however to allocate some one-off funding to support the delivery of corporate priorities without adversely affecting the overall on-going financial position. It is proposed to allocate a further £400k on one-off initiatives as detailed in Appendix 2 to this report.

97. The Council has a general duty to make arrangements to deliver best value and the Government has recently issued new Best Value Guidance to Local Authorities setting out clear expectations for councils considering changing funding to local voluntary and community groups and small businesses.

98. This guidance urges local authorities to avoid passing on disproportionally high reductions in funding to the voluntary and community sector and small businesses. The Council has moved away from funding on a pure grant basis to a commissioning approach with a prospectus whereby the voluntary and community sector bid for funds related to agreed outcomes over a specified period of time. There are also opportunities for future bids when other projects or initiatives are considered. This approach ,therefore, fully meets the expectations of the guidance.

LEGAL IMPLICATIONS

99. The Council will need to set a lawful and balanced budget and Council Tax level for 2013/14 at the Council meeting on 27 February 2013. In developing any proposals the necessary equality impact assessments and consultation processes will need to be followed.

100. The ability to implement savings that deliver a full year effect in 2014/15 is dependent on undertaking the necessary statutory processes and consultation within a timescale that enables savings proposals to be implemented with some effect from 1 April 2013. It is therefore necessary now to identify any areas that are likely to be the subject of savings proposals so that they can be properly worked up to allow for a full year effect in 2014/15.

PROPERTY IMPLICATIONS

101. There are no specific property implications of this report but the ability to support the capital programme is dependant in part on the ability to dispose of surplus assets and generate capital receipts. The delivery of the strategic asset management strategy is also essential in driving the Council's on-going revenue costs down.

EQUALITY AND DIVERSITY

102. The Council has to comply with Section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief and marriage/civil partnership). Equality impact assessments will be completed in respect of relevant proposals as part of the decision making process to enable members to take into account and if necessary mitigate the impacts as part of the decision making process. An updated Equalities Impact Assessment on the overall Medium-Term Financial Strategy will be completed for the budget considerations in February 2013.

SECTION 17 CRIME AND DISORDER ACT 1998

103. Section 17 of the Crime And Disorder Act 1998 (as amended by Police and Justice Act 2006) provides that: it shall be the duty of each authority to exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all it reasonably can to prevent, crime, disorder, anti-social behaviour adversely affecting the environment, and substance misuse in its area.

104. As part of the development of any budget proposals the implications and impacts will be assessed in accordance with Section 17 requirements.

OPTIONS

105. In relation to developing the approach to the 2013/14 Budget there are five main options:

(i) To agree the overall approach and strategy as set out in this report as the basis for developing the Budget Strategy for 2013/14 and the Medium-Term Financial Strategy.

(ii) To identify and agree any specific further areas that should be worked up for consideration in the budget decisions in February 2013 and consult with residents / stakeholders as appropriate and to develop relevant Equality Impact Assessments.

(iii) To not agree the overall approach and strategy as set out in this report and ask that an alternative version be developed for consideration by members in due course.

(iv) To note the progress with regard to various economic initiatives and to agree that £400k is earmarked to the initiatives recommended in Appendix 2 to this report, using additional savings that arose from the 2011/12 outturn, and that the recommended steps outlined in Appendix 2 are also agreed.

(v) To note the progress with regard to various economic initiatives and not to agree that £400k is earmarked to the initiatives recommended in Appendix 2 to this report, and that the recommended steps outlined in Appendix 2 are not agreed.

EVALUATION

106. For 2013/14 there is still a lot of uncertainty about the level of grant funding that will be received and a clearer position on this will not be known until December 2012. The overall budget position would suggest that further specific savings proposals will not be needed to balance the budget for 2013/14. However as part of the overall medium-term approach to budget and financial strategy and also the continued strict financial and budget management, potential savings will still be brought forward and reported as part of the overall Budget Report to Council in February 2013.

107. There is a need to consider longer-term options for 2014/15 and beyond and work these up for consideration for implementation for 2014/15.

108. The Council is in a strong financial position with healthy reserves and general fund balances such that a limited use for priorities with one-off budget implications is deliverable without undermining the on-going budget position.

RISK MANAGEMENT

109. The key risks of the 2013/14 Budget Strategy relate to the uncertainty of the grant funding levels following the introduction of the new retention of business rates system, the transfer of council tax support from Government, budget pressures being even higher than anticipated, savings and efficiencies not being achieved, proposed income levels not being achieved and inflation being higher than expected. These risks are contained in the strategic risk register.

110. It is considered that General Fund balances of at least £5m need to be maintained on top of earmarked reserves to provide a sustainable position which protects the financial health of the Council in the medium-term. Savings implementation plans have been adopted and are rigorously monitored through Service Boards and the Budget Review Board process. Budgetary control and reporting are robust and an officer authorisation panel process controls staffing, publications and related costs.

111. The first quarter’s budget monitor indicates that the overall budget is likely to be achieved for 2012/13. There are however still risks in budget pressures arising in the next three quarters and the tight financial control that successfully delivered the overall budget in previous years should be maintained.

112. For 2013/14 and future years it is essential that the Council identifies the necessary measures to deliver a lawful, balanced and sustainable budget. Proposals need to be developed so that the necessary decision-making processes can be followed.

113. RECOMMENDATIONS

That CABINET considers the results of the budget consultation undertaken as summarised in Appendix 1 to this report and recommends to Council that the following be adopted (options (i) and (iv):

(a) To agree the overall approach and strategy as set out in this report as the basis for developing the Budget Strategy for 2013/14 and the Medium-Term Financial Strategy..

(b) To note the progress with regard to various economic initiatives and to agree that £400k is earmarked to the initiatives recommended in Appendix 2 to this report, using additional savings that arose from the 2011/12 outturn, and that the recommended steps outlined in Appendix 2 are also agreed.

That COUNCIL considers the results of the budget consultation undertaken as summarised in Appendix 1 to this report and the recommendations of the Cabinet and:

(b) To agree the overall approach and strategy as set out in this report as the basis for developing the Budget Strategy for 2013/14 and the Medium-Term Financial Strategy.

(c) To note the progress with regard to various economic initiatives and to agree that £400k is earmarked to the initiatives recommended in Appendix 2 to this report, using additional savings that arose from the 2011/12 outturn, and that the recommended steps outlined in Appendix 2 are also agreed.

114. APPENDICES ATTACHED.

Appendix 1: Budget Consultation Outcomes.
Appendix 2: Progress report on economic initiatives and recommendations for further one-off investment & next steps.

115. BACKGROUND PAPERS

- Report to Cabinet 22 August 2012: Financial management report for quarter 1 (to 30 June 2012) & outturn position for 2011/12.
- Department of Communities and Local Government consultation on Local Government Resource Review: Proposals for Business Rates Retention (July 2011).
- Business Rates Retention – Technical consultation July 2012

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